WESTERN DEPARTMENT STORES

REPORT
to
STOCKHOLDERS

January 31, 1951

Stores operated:

OLDS, WORTMAN & KING	**KAHN'S**	**RHODES BROTHERS**
Portland	**Oakland**	**Tacoma**
Est. 1851	**Est. 1879**	**Est. 1892**

WESTERN DEPARTMENT STORES

A California Corporation — Incorporated in 1937

BOARD OF DIRECTORS

HAROLD V. BOGGS	JOHN J. GOLDBERG
R. L. CHILDS	ELLIOTT McALLISTER
HERBERT E. CLAYBURGH	JOHN J. REILLY
HERBERT I. DUNN	JOHN J. REILLY, JR.

F. A. WICKETT

OFFICERS

JOHN J. REILLY	*President*
HERBERT E. CLAYBURGH	*Vice-President*
HAROLD V. BOGGS	*Vice-President and Manager of Kahn's*
HARRY A. D. SMITH	*Vice-President and Manager of Olds, Wortman & King*
CECIL L. MARTIN	*Vice-President and Manager of Rhodes Brothers*
R. L. CHILDS	*Secretary and Treasurer*
JOHN J. GOLDBERG	*Assistant Secretary*
A. K. HUMBLE	*Assistant Secretary*
J. B. MONNETTE	*Assistant Secretary*
H. W. RHEUBOTTOM	*Assistant Treasurer*

LEGAL COUNSEL

JESSE H. STEINHART

PUBLIC ACCOUNTANTS

PRICE WATERHOUSE & CO.

TRANSFER AGENT

THE ANGLO CALIFORNIA NATIONAL BANK
OF SAN FRANCISCO
No. 1 Sansome Street
San Francisco 20, California

REGISTRAR

WELLS FARGO BANK & UNION
TRUST CO.
Montgomery and Market Streets
San Francisco 4, California

Annual Stockholders' Meeting . . . Oakland, California, Tuesday, May 22, 1951, 11:00 o'clock A.M.

Executive Offices . . . . . . 1501 Broadway, Oakland, California (Kahn's Department Store)

Oakland 12, California
May 1, 1951

To the Stockholders of

Western Department Stores:

Submitted herewith are financial statements of your corporation for the fiscal year ending January 31, 1951, examined and reported upon by our independent auditors, Price Waterhouse & Co. These statements reflect the operation by the corporation of its three department stores: Kahn's, Oakland, California; Olds, Wortman & King, Portland, Oregon; and Rhodes Brothers, Tacoma, Washington.

Sales for the year were $31,920,611 compared with $29,510,115 in the previous year, an increase of 8.2%.

Merchandise inventories on January 31, 1951, including goods in transit, were $3,911,693, compared with $4,122,629 on January 31, 1950. In view of the recent increase in price levels and the possibility that prices will continue to increase, the management has been considering the advisability of adopting the LIFO (last-in, first-out) basis of pricing inventories. This is an accepted basis of accounting and has the effect of more nearly allocating current merchandise costs to sales than does the "retail" method of pricing inventories, which has heretofore been used. This basis is also permitted for federal income and excess profits tax purposes, but only if it is also used for financial accounting and reporting. The corporation has, therefore, applied the LIFO basis for accounting purposes to a substantial portion of the inventories at January 31, 1951, but decision as to the adoption of this basis for tax purposes is pending at the date of this report. As a result, the inventories at January 31, 1951 are stated at $128,435 less than they would have been if the basis of pricing had not been changed; this reduction, together with a required adjustment of $128,729 to the inventories at the beginning of the year, had the effect of reducing net income for the fiscal year by $257,164. If the LIFO basis is adopted for federal income and excess profits tax purposes, it is estimated that taxes on income for the year ending January 31, 1951 will be reduced by approximately $150,000 and that additional taxes of approximately $50,000 for the preceding year will result; these amounts have not been reflected in the financial statements.

Net income, using the LIFO basis, was $1,314,606, equal to $3.80 per share, compared with net income (as restated—see statement of income and earned surplus) of $1,418,755, equal to $4.10 per share in the previous year. If we were using the method of inventory valuation previously used, we would show net income of $1,571,770, equal to $4.54 per share.

Working capital of the corporation at the end of the year was $6,932,744, compared with $6,354,018 at the end of the previous year. The term note payable to the bank was reduced $250,000. The ratio of current assets to current liabilities is 3.06 to 1, compared with 3.38 to 1 the previous year.

Customers' accounts receivable were $927,311 higher than in the previous year.

The corporation continued quarterly dividends at the rate of 40¢ per share and a dividend of the same amount was paid April 16, 1951.

In accordance with provisions of the corporation's Profit-Sharing Retirement Plan, the corporation contributed, for the past fiscal year, $180,130 (this amount is an estimate pending decision on LIFO), compared with $156,541 the previous year. At January 31, 1951, there were 810 employees participating in the Plan, which is over 90% of the total number of employees eligible to participate.

During the past year, the Oakland Store's ready-to-wear selling floor was completely modernized. Modernizing of the store entrances of the Portland Store has recently been completed. The Tacoma Store has continued the work of relocating certain departments and modernizing selling areas, in keeping with the overall plan of utilizing the additional space made available in their new building, which was completed in the Fall of 1949. The corporation's policy is one of continuous improvement to its selling areas and operating facilities.

Our appreciation is expressed to all of our employees for their splendid efforts and cooperation during the past year.

Notice of Annual Meeting of Stockholders is enclosed. We hope you will attend; however, if you cannot be present, we will appreciate your forwarding the proxy form.

For the Board of Directors
John J. Reilly, *President.*

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BALANC

(See accompanying note

ASSETS

	January 31	
	1951	1950
Current Assets:		
Cash in banks and on hand	$ 1,599,938	$ 1,044,288
Accounts receivable:		
Customers	$ 4,856,791	$ 3,929,480
Sundry	72,802	91,823
	$ 4,929,593	$ 4,021,303
Less—Provision for doubtful accounts	151,049	165,682
	$ 4,778,544	$ 3,855,621
Inventories of merchandise (Note 1)	$ 3,911,693	$ 4,122,629
Total current assets	$10,290,175	$ 9,022,538
Miscellaneous Investments, Deposits and Advances:		
Store repairs and improvements, recoverable from lessor	$ 138,274	$ 135,758
Investments (at cost) and insurance and other deposits	52,906	52,056
	$ 191,180	$ 187,814
Property Accounts, at cost:		
Buildings, furniture and fixtures, etc.	$ 1,674,033	$ 1,496,807
Leasehold and improvements to leased buildings	3,195,965	3,167,238
	$ 4,869,998	$ 4,664,045
Less—Accumulated depreciation and amortization	1,923,502	1,759,546
	$ 2,946,496	$ 2,904,499
Land	51,500	51,500
	$ 2,997,996	$ 2,955,999
Unexpired insurance, prepaid taxes and other deferred expenses	$ 337,741	$ 222,549
	$13,817,092	$12,388,900

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LIABILITIES

		January 31	
		1951	1950
Current Liabilities:			
Accounts payable, trade		$ 1,650,869	$ 1,469,870
Payrolls, taxes and other accrued liabilities		926,769	771,322
Federal taxes on income, estimated		1,379,793	927,328
Less—United States Treasury Savings Notes—Tax Series C		(600,000)	(600,000)
Note payable to bank			100,000
Total current liabilities		$ 3,357,431	$ 2,668,520
Note Payable to Bank (due after one year) (Note 2)		$ 1,150,000	$ 1,300,000
Capital and Surplus:			
Capital:			
Common stock, par value $0.50 per share:			
Authorized	600,000 shares		
Issued	351,364 shares		
Less—In treasury	5,000 shares		
	346,364 shares	$ 175,682	$ 175,682
Excess of par value of 6% cumulative convertible preferred stock over par value of common stock issued in exchange therefor		1,610,040	1,610,040
Stated capital		$ 1,785,722	$ 1,785,722
Excess of proceeds from sale of convertible notes over par value of common stock issued upon conversion		$ 240,350	$ 240,350
Earned surplus since reorganization, April 8 1937 (Note 2):			
Appropriated for possible future decline of inventory values			$ 500,000
Unappropriated, per accompanying statement		$ 7,283,589	$ 5,894,308
		$ 7,283,589	$ 6,394,308
		$13,817,092	$12,388,900

WESTERN DEPARTMENT STORES

STATEMENT OF INCOME AND EARNED SURPLUS

	Year ended January 31	
	1951	1950
Net sales, including leased departments	$31,920,611	$29,510,115
Less—Sales of leased departments	4,831,266	4,185,835
	$27,089,345	$25,324,280
Cost of merchandise sold (Note 1)	18,309,262	17,223,960
Gross profit—own departments	$ 8,780,083	$ 8,100,320
Discounts on purchases	658,988	685,775
Gross income from leased departments	625,700	555,087
Adjustments of provisions for depreciation, bad debts, etc. for prior years, less related federal taxes on income	48,239	75,142*
Other income and credits	238,984	188,186
	$10,351,994	$ 9,604,510
Selling, general and administrative expenses	$ 7,380,158	$ 6,964,340
Contribution under profit sharing retirement plan	180,130	156,541
Provision for depreciation and amortization	165,088	151,387
Interest expense	36,078	52,373
Other charges	4,434	21,114
	$ 7,765,888	$ 7,345,755
	$ 2,586,106	$ 2,258,755
Provision for estimated federal taxes on income (including $88,000 for excess profits tax in 1951)	1,271,500	840,000
Net income for year	$ 1,314,606	$ 1,418,755
Special credit:		
Increase in inventories as of January 31 1950 resulting from adoption of Lifo basis (Note 1)	128,729	
Net income for year and special credit	$ 1,443,335	$ 1,418,755
Unappropriated earned surplus at beginning of year	5,894,308	5,029,598
Restoration of amount appropriated in prior years for possible future decline of inventory values	500,000	
	$ 7,837,643	$ 6,448,353
Dividends paid in cash, $1.60 per share	554,054	554,045
Earned surplus (unappropriated) at end of year (accumulated since reorganization, April 8 1937) (Note 2)	$ 7,283,589	$ 5,894,308

*Restated for purposes of comparison; in last year's report to stockholders this item was shown as a direct credit to earned surplus and net income for the year was stated at $1,343,613.

WESTERN DEPARTMENT STORES

NOTES TO FINANCIAL STATEMENTS

JANUARY 31 1951

NOTE 1—Inventories:

As explained in the President's letter, effective February 1 1950 the last-in, first-out (commonly known as "Lifo") basis of pricing inventories (including merchandise in transit) was adopted for a substantial number of departments. Merchandise on hand in other departments has been priced at or below cost as determined by the retail inventory method and merchandise in transit for such departments has been priced at cost, not in excess of market. Inventories for which the last-in, first-out method was adopted totaled $3,006,483 at January 31 1951. Inventories as of January 31 1950 of those departments for which the last-in, first-out method was adopted for accounting purposes were increased by $128,729, representing estimated amount to increase such inventories to cost, for purposes of computing income for the year ending January 31 1951 and this amount appears as a special credit on the statement of income and earned surplus.

The effect of this change in basis has been to reduce inventories at January 31 1951 by $128,435 and to reduce net income for the year ending January 31 1951 by $257,164, representing the sum of the decrease in the January 31 1951 inventories and the increase in the January 31 1950 inventories heretofore mentioned. If the Company adopts this change in basis for federal income and excess profits tax purposes and it is accepted by the Treasury Department, it is estimated that federal taxes on income for the year ending January 31 1951 will be reduced by $150,000 and additional taxes for the preceding year of $50,000 will result; these amounts have not been reflected in the financial statements.

NOTE 2—Note payable:

The balance of the note is payable in annual instalments (on January 1) of $150,000 in 1953 and $200,000 each in years 1954 to 1958, inclusive; the instalment due January 1 1952 was paid during the year ending January 31 1951. The loan agreement with the bank provides that, without the prior written consent of the bank, the Company will not declare or pay any dividends except out of earnings subsequent to January 31 1947. The undistributed earned surplus since that date amounted to $3,353,114. The Company also covenants that during the term of the loan it will not permit its net current assets to decline below $3,000,000 or its ratio of current assets to current liabilities to be less than two to one.

NOTE 3—Long-term leases:

Leases for two of the Company's stores expire in 1975; they provide for rentals computed as a percentage of sales, subject to a minimum annual rent. The lease for the third store expires in 1972; it provides for a flat monthly rental plus real estate taxes in excess of a specified amount until 1957 and thereafter percentage rentals, subject to a minimum annual rent. The minimum annual rental obligation under these leases and the total amount of rent and other charges paid thereunder for the year ending January 31 1951 were $493,500 and $839,754, respectively.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of

WESTERN DEPARTMENT STORES:

In our opinion, the accompanying financial statements, together with the notes thereto, present fairly the position of Western Department Stores at January 31, 1951 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles. These accounting principles were applied on a basis consistent with that of the preceding year except for the change to the last-in, first-out basis of pricing a substantial portion of the inventories as set forth in Note 1, which change has our approval. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

San Francisco
April 24 1951